005464

EXECUTIVE SUMMARY

FOR THE PROPOSED

HAMILTON TRADE CENTRE/ARENA

HAMILTON, ONTARIO

URBAN & REGIONAL INFORMATION CENTRE
RESEARCH ON STUDIES
MCMASTER UNIVERSITY
HAMILTON, ONTARIO

Prepared for:

The City of Hamilton

November, 1982

Pannell Kerr Forster
Campbell Sharp

MANAGEMENT CONSULTANTS

December 22, 1982

Alderman B. Hinkley
Chairman and Members
Parks and Recreation Committee
City of Hamilton
Hamilton, Ontario
L8N 3T4

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RESEARCH UNIT FOR URBAN STUDIES
McMASTER UNIVERSITY
HAMILTON, ONTARIO

Attn: Mr. J.J. Schatz
Secretary

In accordance with the terms of our engagement, we have completed an analysis of market conditions and developed financial projections relating to the Trade Centre/Arena facility proposed for Hamilton, Ontario.

The entire study, including all findings, conclusions and recommendations, pertains only to the Trade Centre/Arena facility as defined through discussions with your Technical Committee and our analysis of architectural drawings prepared by Parkin Architects. As you know, it was beyond the consulting mandate to determine the probability of Hamilton obtaining an NHL franchise. However, as requested in the terms of reference, we have developed financial scenarios which are intended to measure the impact of attracting a professional hockey tenant. Therefore, the scope of our study has been based upon the following two scenarios provided to us:

1. Trade Centre/Arena to operate with an NHL franchise, and
   - concessions operated by the City
   - concessions operated by contract

2. Trade Centre/Arena to operate without an NHL franchise, and
   - concessions operated by the City
   - concessions operated by contract

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In order to quantify demand and estimate possible operating results within the above noted scenarios, a variety of assumptions were required. These assumptions are the result of discussions with the Technical Committee and relate primarily to the treatment of the proposed facility's organization structure and operating procedures. Documentation of each assumption is provided within the body of our report at the relevant point of discussion.

The results of the study are based on the consulting team's present knowledge with respect to: current and projected economic data, sources of existing and proposed arena or trade centre supply, analysis of trade centre and/or arena demand sources and the status of competitive markets at completion of our fieldwork on October 25, 1982. A draft report detailing our preliminary conclusions and findings was submitted to the Technical Committee for review and comment December 3, 1982.

The attached summary of findings and conclusions represents our final report to the Technical Committee and highlights what we believe to be the critical points for decision making. Supporting documentation and background research data is provided under separate cover in a document entitled "Market Study and Net Revenue Projections for the Proposed Hamilton Trade Centre/Arena".

The estimated operating results included in our reports represent the performance of the facility based on a calendar year. These figures have been projected to include six months of operation for the latter part of 1985 and the full calendar years 1986 through 1990. Our financial projections are based on an evaluation of present and forecasted market conditions but do not take into account or make any provision for a sharp rise or decline in the local, provincial and national economies. To the extent that wages and other operating expenses may increase over the economic life of the project, it is expected that the price of rentals and services would be adjusted to compensate for these increases.

As in all studies of this type, the estimated operating results are based on competent and efficient management and presume no significant change in the competitive position of the Arena and Trade Centre Industries within the market area except as set fortn in this report. We do not warrant that the estimates will be attained but they have been conscientiously prepared based on available information and our experience in the industry.

This report has been prepared primarily for the use and guidance of the City of Hamilton in determining the feasibility of the Trade Centre/Arena project and for possible use in developing, managing, and operating the facility. In connection with permitted uses, this document may not be disassembled, rearranged or copied in any manner that would allow for the presentation of only a portion of this report.

We would like to extend our appreciation to the members of the Technical Committee for their invaluable co-operation and assistance during the course of this engagement. We would be pleased to hear from you if we may be of further assistance in the interpretation or application of these findings and conclusions.

Yours very truly,

Pannell Kerr Forster Campbell Sharp

PANNELL KERR FORSTER CAMPBELL SHARP

WBA/RAP/BKS/ap

I INTRODUCTION

Background

As a result of previous consulting reports and analysis by internal departments, the City of Hamilton has determined the desirability of developing a trade centre/arena complex for the community. Current planning indicates this facility will contain approximately 18,000 arena seats as well as the capability of providing 60,000 square feet of trade centre space. The entire project is budgeted at $42.7 million and construction tenders are expected to be called in April of 1983.

Prior to proceeding with this project, the City wishes to determine potential revenues, operating costs and associated benefits of the facility. This information was previously provided as part of a much broader consulting assignment conducted in 1980. However, it has been two years since that study was completed and before proceeding with this project, the City of Hamilton wishes to determine the implications of changing market conditions which may have arisen since the original analysis was conducted.

The consultants' mandate was therefore to:

> ". . . determine, before the project goes to tender, exactly what operating revenues, including advertising and expenditures will be generated by this facility on completion in order that City Council will have realistic financial information on which to base a decision whether to proceed with the project or not".

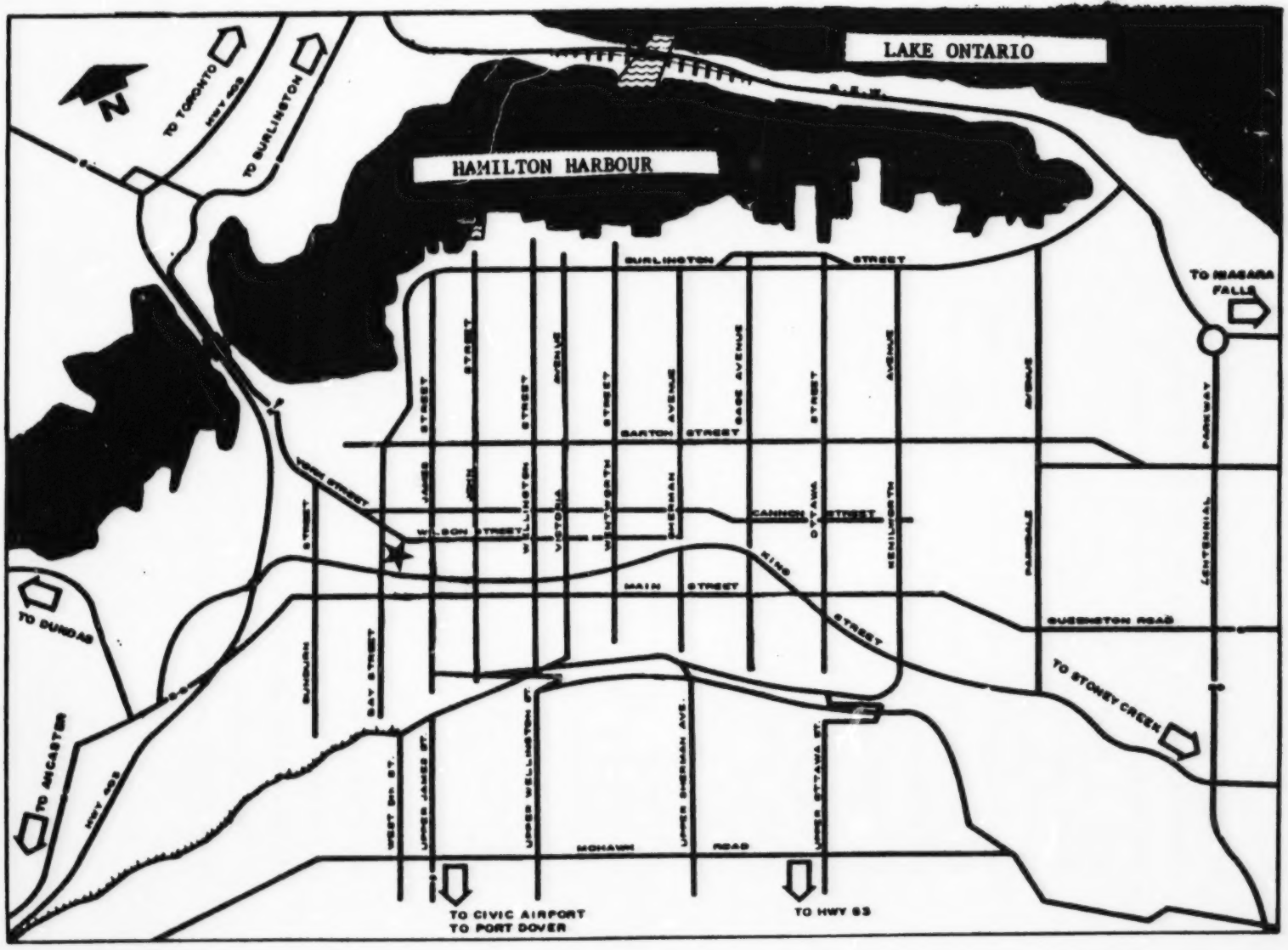
The information contained in the following report addresses the above-noted study objectives as well as providing background information which will be of assistance to both the project design team and future management/marketing functions.

Project Description and Location

In carrying out this assignment, the consulting team was fortunate to become involved in the project at a point where the preliminary design drawings for the arena facility had been largely completed. As a result, we were able to present a defined concept to possible users and compare this facility with other

EXHIBIT 1

HAMILTON



★ SITE

operations in North America. It has been our experience that the apportunity to present a fairly refined design concept to possible users results in more accurate estimates of possible use. In addition, the reaction of both users and professional trade centre/arena operators to the design concept provides valuable input for refining the facility to maximize efficiency and market appeal. Therefore, the project as presented to the market throughout our study had its basis in preliminary design drawings prepared by the City's architechtural consultants. However, the relationship between our research findings and the design process was a dynamic one which resulted in some adjustments to the original plans.

The site selected by the city for the proposed Trade Centre/Arena complex, is the southeast corner of Bay and York Streets in downtown Hamilton, Ontario. Exhibit I on the facing page indicates the location of the site, and Exhibit II on the following page describes the area in more detail. The Trade Centre/Arena is conveniently located to complement other downtown activity-generating buildings which in total ultimately form the basis of a vibrant core area for Hamilton. Overall site accessibility is considered reasonable and the proximity to public parking in the area is adequate. This aspect of the project's feasibility has been the subject of previous study and is somewhat beyond our mandate. However, to the extent that location could effect revenue potential, we forsee no serious constraints to demand maximization.

The structure can be characterized as a multi-use facility combining arena and trade centre functions. As an arena, the facility is suitable for a variety of events typically held in coliseum type facilities. As a trade centre, the facility is designed to provide an area of 60,000 square feet for exhibition use. In addition to these facilities, the structure contains support services for the arena and trade centre uses.

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EXHIBIT 1A SITE LOCATION

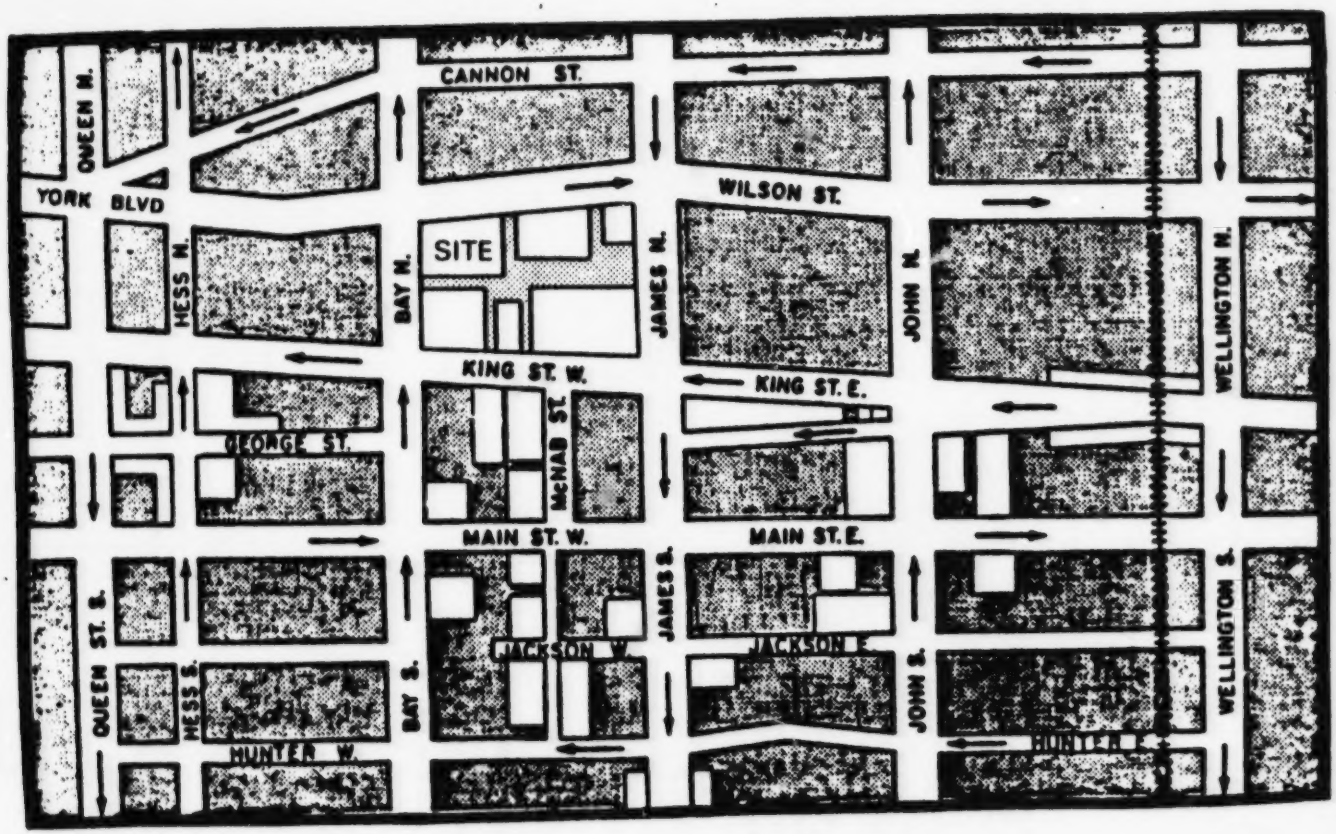
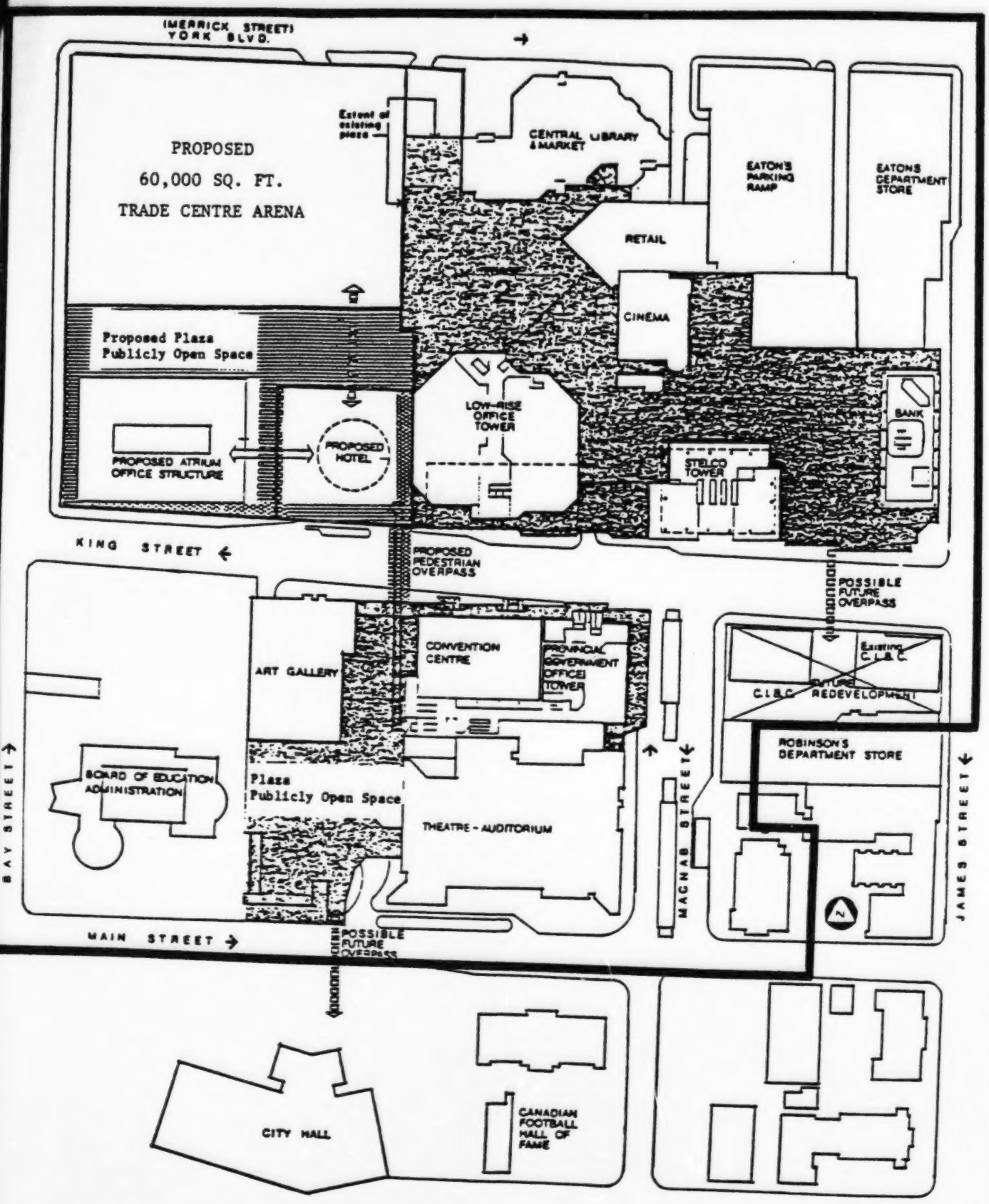


EXHIBIT II-SITE



Pannell Kerr Forster Campbell Sharp

Other components include a restaurant facility on the street level, concession outlets at both trade centre level and arena mezzanine level, 18 private boxes and a retail component which has the capability of creating 60,000 square feet of gross rental area. The arena is accessible from both Bay Street and York Boulevard as well as from retail areas within the high-rise structures which abut the building to the east and south.

Our review of the project plans and discussions with the architectural consultants identified several areas that would have limited the ultimate revenue producing potential of the facility. As a result of these discussions and the architects' creative response, each issue has been resolved. Therefore, based on the latest drawings, and taking into account project budget constraints, we are of the opinion that there are no design-based limitations which seriously impact the revenue generating potential of the facility.

II SCOPE OF STUDY AND METHODOLOGY

Scope of Study

The primary objective of this study was to provide accurate and realistic financial projections for the proposed Trade Centre/Arena. These projections were based on a series of assumptions, provided by the city in the original terms of reference and later expanded by request of the technical committee. These assumptions are as follows:

1. An NHL team and either Ontario Hockey League (OHL) or American Hockey League (AHL), teams as an additional tenant.
2. An NHL team as the only hockey tenant.
3. Minor league hockey tenant, OHL used for example purposes.
4. No hockey tenant.

Within each of the above four scenarios we have also included the concession revenue potential from both internal and external operations.

Methodology

In order to satisfy the above-noted scope of analysis, our study methodology was based on the following three fundamental components:

1. identification and analysis of comparable facilities;
2. identification and analysis of competitive facilities and markets achieved;
3. Identification and analysis of possible arena and/or trade centre users.
4. direct input based on the collective experience of study team members, including the ability to draw upon similar projects conducted by the firm as well as specific operator input from individuals currently involved in operating similar arena facilities and specialists in the area of arena promotion, concession management and project development.

The information provided from these sources was integrated with data contained in previous consulting reports as well as output from meetings with the Technical Committee. As a result, the consulting team was able to accumulate a

significant amount of current, relevant and specific data. In addition, various industry publications were reviewed for application to the project. Using our research data as a base, we developed a list of events which could be accommodated in the facility and for which there appeared to be demand. This list was further refined by assigning probabilities to reflect practical scheduling limitations within each scenario as well as the relative appeal of any individual event.

As a result of this process, a model of trade centre and arena usage by event type was developed. Example event calendars were also created at this stage to ensure there was practical application of the usage model. Once complete, the usage model and event calendars were compared to similar facilities and reviewed by professional operators familiar with the Canadian and US trade centre/arena markets. The output of this process was a usage model for each scenario which represented practical, achievable demand for the trade centre/arena facility.

Having developed an estimate of demand for each scenario, the consulting team then extended the model to include revenue and expense projections. The basis for these projections included the results of field interviews and the data collected and analyzed during the fieldwork phase of the study as well as actual financial information from both comparable and competitive facilities. Once complete, the financial projections were reviewed by selected industry professionals to ensure reasonableness. In addition, any variances from previous reports were examined and found to be generally explained by changed market conditions.

Therefore, on the following pages of this report, we present our findings and conclusions with respect to the market potential and financial performance of the proposed Hamilton Trade Centre/Arena.

II SUMMARY OF FINDINGS AND CONCLUSIONS

General Comments

As a result of our study, we believe that market conditions generally support the development of a major arena facility in Hamilton.

Should an NHL franchise be obtained, and assuming a reasonable rental agreement can be negotiated, the arena would generate significant positive cash flows with or without a second hockey tenant. In this regard, the inclusion of a trade centre component is not critical to financial success. Projected demand from professional hockey, other sports and entertainment events will be adequate to justify development of the facility.

However, an assessment of downside risk for the complex is required should no hockey tenant be obtained. Under this scenario, market conditions indicate that modest cash flow deficiencies will be experienced in the early years of operation ultimately improving to a break even position.

The "no hockey tenant" scenario demonstrates the importance of including a trade centre component as part of the complex in order to contribute to overall viability. It is also important to note that if an aggressive and successful joint marketing effort is undertaken by the managements of both the Trade Centre/Arena and Convention Centre, an opportunity would exist to create increased demand for the complex. In addition, should the current trend of allowing beer sales in stadiums be extended to major arenas in Ontario, our research indicates that significant additional concession rental revenue will be created. Therefore, the development of a successful trade centre component and increased concession revenues from the possible sale of beer would result in a breakeven position being attained earlier than the projections indicate.

Although nct reflected in the Trade Centre/Arena financial projections, the economic impact of this facility upon the community will be significant.

Approximately 650 jobs for 22 months will be created during construction. The construction phase will also create over 1,100 direct, indirect and induced man years of employment. After completion, between 1,289 and 694 additional man years of direct, indirect and induced employment will also be created. This range represents the effect of the two scenario extremes, i.e. with and without an NHL franchise.

The employment-creating effect of this project contains significant added benefits to the city because the project materializes at an especially critical time given Hamilton's current level of unemployment. Also important is the possibility that this project will assist in stimulating development of an additional hotel for Hamilton. Should one of the hotel projects currently being contemplated proceed, the added economic and employment impacts will be of significant value to the City.

In addition to the employment effect, development of the Trade Centre/Arena will create new expenditures and therefore income for the community. People attending events at the arena and individuals involved with the performances will generate between 19 to 28 million dollars in expenditures by the third full year of operation. Again, this range represents the two scenarios of "No NHL" and "NHL" respectively.

Summary

In general, the results of our analysis support development of the proposed Trade Centre/Arena. Assuming that an NHL team can be attracted under favourable rental terms, our data indicates significant positive cash flow and spin-off economic benefits to the community.

The alternative scenario of no permanent hockey tenant suggests that initial operating years will result in modest deficits. A breakeven position is considered achievable by the third full operating year. If the synergy from the joint trade and convention centre use is greater than expected and beer sales are allowed, positive operating results are likely to be achieved after the second full year of operation.

In the following pages are summarized the general conclusions regarding specific aspects of our analysis and the projected financial results.

Site

The location of the project will enable management to take advantage of downtown area development and benefit from increased consumer and business activity. Hamilton's downtown centre, which includes the existing Convention Centre and Hamilton Place facilities, the Lloyd D. Jackson Square complex and the likelihood of an additional major hotel project in the area, will enhance the infrastructure supporting the successful development and operation of the trade centre/arena facility.

The location will further increase community awareness and use of the growing downtown core. In addition, markets attracted to the Trade Centre/Area will enable other components of the downtown area to benefit from the increased consumer spending.

Market Conditions

The various economic and development factors noted in our report suggest that, by the time of completion of the complex, general market conditions will be favorable with regard to demand generation for the Trade Centre/Arena facility. Although these conditions cannot be considered optimum, Hamilton's Trade Centre/Arena can be expected to achieve activity levels typical of similar communities. In addition, market and economic conditions should be much improved over the existing environment currently faced by major multi-use arena facilities, thereby increasing the potential for consumers to make discretionary expenditures for entertainment and sports events.

Management

We have assumed that the City of Hamilton will wish to maximize revenues and profit from the facility. Accordingly, the management style must be that of a private enterprise-oriented facility with appropriate consideration given to community needs.

Our research indicates that the quality of management is critical to ultimate success for public assembly facilities of this nature. Therefore, acquiring top quality management should be an early priority. Each of the options of hiring experienced individuals or of engaging a management company are viable. We would also strongly recommend careful analysis of the issue regarding in-house versus outside concession management. In many cases the expectation of increased profit from in-house concession management has proved to be largely illusionary. Finally, we would reiterate that the management issue be solved as quickly as possible so that a team is in place early enough to ensure optimum pre-selling and market penetration.

Market Share

Research data suggests that Hamilton's Trade Centre/Arena could capture a share of market consistent with well-managed and successful, comparable facilities. As designed, and assuming the integration of consulting input to date, we believe the complex will be able to attract a wide variety of events. We would also note that although the revenue levels ultimately attained are dependent on regional market conditions, the business volumes and operating costs should also be consistent with successful comparable facilities.

The attraction of an NHL franchise is critical to ensuring maximum benefit in relation to the expenditures associated with the project. Whereas it is not essential that an NHL franchise or major sport tenant be obtained, the alternative scenario creates a significant marketing and management burden and severely reduces the opportunity to achieve positive cash flows of any magnitude to service the debt.

Assuming that the appropriate quality of management can be obtained, research data indicates that Hamilton's proposed arena will be considered an attractive venue by event organizers. As a result, we expect the arena to compete directly and effectively in the South-Central Ontario market.

The demand for exhibition space is somewhat dependent on the success of the Convention Centre in attracting groups to Hamilton. However, a basic level of consumer and trade show events is considered achievable early in the facility's operating history. In addition, the recent design changes will greatly improve the flexibility of the trade centre component thereby creating an exhibition facility which could accomodate a wide spectrum of uses. The net effect is an opportunity to increase market penetration for both the trade centre and existing convention centre as a result of cooperative marketing and joint use.

Trade Area

The Hamilton Trade Centre/Arena will be able to attract markets from areas within southern Ontario, and to a lesser extent, western New York. From Oshawa to London and south to Buffalo, there exists a total market area of six million people. Currently this market has a variety of alternative facilities for viewing sports events, concerts, special events and trade shows. Our research has indicated that the trade centre/arena proposed for Hamilton has the potential to successfully penetrate this market area. In particular, we would expect the facility to dominate the market in South Central Ontario extending from Guelph/Kitchener south to St. Catharines and east to Mississauga.

Events

Our research indicates that in addition to the need for professional sports tenants, sources of revenue exist for such events as amateur sports, wrestling, concerts, ice shows, and trade and consumer shows. The summary of events and activities that can be attracted is summarized in Exhibit III on the following page, and indicates a typical year of operation once initial market penetration has been acheived.

The projected volume of events ranges from a low of 82 to a high of 146 for the extremes of no hockey and NHL/OHL scenarios respectively. The total number of days the facility will be in use ranges from 146 to 199 for these same scenarios.

EXHIBIT III
SUMMARY OF EVENTS AND ACTIVITIES

NHL/OHL SCENARIO

Category	No. of Events	Event Days	Comments
NHL	45	45	includes 5 exhibition games
OHL	40	40	includes 5 exhibition games
Wrestling	20	20	
Concerts	20	20	
Consumer Shows	5	39	
Industrial Shows	1	8	
Circus	1	6	9 performances
Ice Shows	1	8	9 performances
Tennis Exhibitions	3	3	
NBA Exhibitions	1	1	
Harlem Globetrotters	1	1	
Sporting Events	6	6	
Ethnic Shows	2	2	

146 events - 181 performances - 199 days

NHL ONLY SCENARIO

NHL	45	45	includes 5 exhibition games
Wrestling	20	20	
Concerts	20	20	
Consumer Shows	5	39	
Industrial Shows	1	8	
Circus	1	6	9 performances
Ice Shows	1	8	9 performances
Tennis Exhibitions	3	3	
NBA Exhibitions	1	1	
NHL Exhibition	1	1	
Sporting Events	6	6	
Harlem Globetrotters	1	1	
Other Events	18	18	
Other Consumer Shows	2	12	
Ethnic Shows	2	2	

127 events - 165 performances - 190 days

OHL ONLY SCENARIO

OHL	40	40	includes 5 exhibition games
Wrestling	20	20	
Concerts	20	20	
Consumer Shows	5	39	
Industrial Shows	1	8	
Circus	1	6	9 performances
Ice Shows	1	8	9 performances
Tennis Exhibitions	3	3	
NBA Exhibitions	1	1	
NHL Exhibition	1	1	
Sporting Events	6	6	
Harlem Globetrotters	1	1	
Other Events	18	18	
Other Consumer Shows	2	12	
Ethnic Shows	2	2	

122 events - 161 performances - 185 days

NO HOCKEY SCENARIO

Wrestling	20	20	
Concerts	20	20	
Consumer Shows	5	39	
Industrial Shows	1	8	
Circus	1	6	9 performances
Ice Shows	1	8	9 performances
Tennis Exhibitions	3	3	
NBA Exhibitions	1	1	
NHL Exhibition	1	1	
Sporting Events	6	6	
Harlem Globetrotters	1	1	
Other Events	18	18	
Other Consumer Shows	2	12	
Ethnic Shows	2	2	

82 events - 121 performances - 145 days

EXHIBIT IV

EVENT SCHEDULE PROJECTIONS

	1985*	1986	1987	1988
NHL/OHL SCENARIO				
NHL	22	45	45	45
OHL	20	40	40	40
Sporting Events	10	21	26	31
Consumer/Trade Shows	2	4	5	6
Concerts	7	14	17	20
Entertainment	2	4	4	4
TOTAL EVENTS	63	128	137	146
NHL ONLY SCENARIO				
NHL	22	45	45	45
Sporting Events	10	21	26	31
Consumer/Trade Shows	3	6	7	8
Concerts	7	14	17	20
Entertainment	2	4	4	4
Other Events	6	13	15	18
TOTAL EVENTS	50	103	114	126
OHL ONLY SCENARIO				
OHL	20	40	40	40
Sporting Events	11	22	27	32
Consumer/Trade Shows	3	6	7	8
Concerts	7	14	17	20
Entertainment	2	4	4	4
Other Events	6	13	15	18
TOTAL EVENTS	49	99	110	122
NO HOCKEY				
Sporting Events	11	22	27	32
Consumer/Trade Shows	3	6	7	8
Concerts	7	14	17	20
Entertainment	2	4	4	4
Other Events	6	13	15	18
TOTAL EVENTS	29	59	70	82

* 6 months of operation

Exhibit IV shows our estimate of event buildup to the point of a typical year. For the purposes of this analysis, we have assumed the typical year to be 1988 or the third full year of operation. In addition, this buildup period assumes a 12-18 month pre-selling effort prior to opening of the facility.

Existing Facility Impact

It was within the scope of the study to evaluate the financial impact of the Trade Centre/Arena's operation with respect to existing public assembly facilities in Hamilton. These impacts were derived through the evaluation of lost revenues or demand. Exhibit V outlines the estimates of lost revenues for each of:

- Hamilton Convention Centre
- Hamilton Place
- Ivor Wynn Stadium
- Hamilton Mountain Arena

Based on our analysis of present operating conditions at the Convention Centre and the results of our market research, we have projected a high probability for the transfer of three trade and consumer shows to the new facility and a medium probability of transfer for two additional shows. However, it should be noted that the joint use potential of the trade centre and convention centre will create new opportunities for the generation of convention business. Therefore, research indicates an opportunity for the convention centre to ultimately benefit from development of the trade centre/arena.

We have projected a loss of 3 to 7 concerts at Hamilton Place. Since revenue potential per performance is limited by the relatively smaller number of seats, the overall impact will be minimal. We have estimated lost revenue to range from $6,000 to $14,000. It should also be noted that those concerts expected to transfer to the Arena will be doing so as a result of their requirements for larger seating capacities. Officials of Hamilton Place have indicated that there will be little difficulty in replacing these events. Therefore, there should be no net negative effect. The ultimate transfer of events and subsequent replacement will result in increased revenues to the City from concessions and rentals of from $47,000 to $110,000.

EXHIBIT V

EXISTING FACILITY IMPACT

(1982 dollars)

ESTIMATE OF REVENUE TRANSFERRED TO TRADE CENTRE/ARENA

Convention Centre[1]	Rental Revenue	Internal Concessions	Total
High Probability			
Industrial Show	$15,200	$4,800	$20,000
Car Show	15,200	4,000	19,200
Home Show	15,200	12,800	28,000
	45,600	21,600	67,200
Medium Probability			
Better Living Show	12,000	4,800	16,800
Sports and Leisure Show	12,000	4,800	16,800
	24,000	9,600	33,600
	$69,600	$31,200	$100,800

Hamilton Place

3 concerts @ $2,000[2]	net revenue =	$6,000
7 concerts @ $2,000	net revenue =	14,000
		$20,000

Ivor Wynn Stadium

Union Meetings
Sports Tournaments
Religious Events - 2
Concerts - 2
Estimate of transferred revenue, 7 events at $2,000[3] net = $14,000

Mountain Arena

Circus - 8 performances
Concerts - 2
Sports Events - 3
Estimate of transferred revenue, 13 events at $1,200[4] net = $15,600

NOTES

1 Assumes revenues at Trade Centre/Arena equal to those at Convention Centre.
2 Based on achieved rental revenue and bar revenues, Hamilton Place 1981
3 Source: Hamilton Department of Culture and Recreation
4 Based on existing rate structure

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We have estimated that certain events and attractions currently held at both Ivor Wynn and the Mountain Arena will be persuaded to relocate to the new Trade Centre/Arena. The estimated financial impact is $14,000 for Ivor Wynn Stadium and $16,000 for the arena. In our view, the financial implications are minimal.

The resulting direct financial impact on the existing facilities, with the exception of the Convention Centre, is minimal. However, even the negative impacts on the convention centre can be minimized. Research indicates that with the completion of one of the proposed hotels, increased demand for convention space should more than compensate for the loss of trade and consumer show demand.

In summary, our research indicates the impact of the proposed Trade Centre/Arena will be positive and of ultimate benefit to the community and related facilities.

Financial Projections

Estimates of revenue and expenses associated with each scenario have been prepared in order to determine the financial viability of the trade centre/arena complex. In addition, we have further refined each scenario to demonstrate the possible financial impact of internal versus external concession operations as well as additional revenue from the possible sale of beer in the arena.

The development of financial projections has involved extensive consideration of a great variety of assumptions. In order to facilitate the presentation of our findings, we have provided a series of summary exhibits in the following section. Also included are the primary assumptions which form the underlying basis for the revenue and expense estimates.

Essentially, the financial projections indicate that after the third full year of operation the facility will generate at one extreme an operating profit of $1,480,000 with an NHL team versus an operating profit of $81,000 with no permanent hockey tenant. These amounts are stated in 1982 dollars and assume optimum

EXHIBIT VI
ARENA REVENUES
(1982 dollars)
($000's)

	NHL/OHL		NHL ONLY		OHL ONLY		NO HOCKEY	
	External Concessions	Internal Concessions	External Concessions	Internal Concessions	External Concessions	Internal Concessions	External Concessions	Internal Concessions
Arena Rentals	$1,769	$1,769	$1,794	$1,794	$945	$945	$858	$858
Concessions	709	946	668	892	455	607	372	496
Corporate boxes (1)	234	234	234	234				
Retail	300	300	300	300	300	300	300	300
Advertising	200	200	200	200	85	85	85	85
Promotion	85	85	115	115	115	115	115	115
Total	$3,298	$3,535	$3,311	$3,535	$1,900	$2,052	$1,730	$1,854
Adjusted total if beer sales allowed	$3,440	$3,724	$3,445	$3,713	$1,991	$2,172	$1,804	$1,953

NOTES

(1) Corporate Boxes - 18 boxes at $13,000/box

Numbers may not add due to rounding

internal concession operations but do not include the impact of possible beer sales. Operating profit is defined as the revenue in excess of direct operating costs prior to deductions for depreciation, amortization and debt service.

As in any study of potential financial performance, the projected results can be interpreted in a variety of ways. At one extreme and assuming a reasonable rental agreement with an NHL team, the facility should generate revenue that will make a significant contribution to debt service. At the other extreme the trade centre/arena breaks even and makes a minor contribution to the original construction cost. Nevertheless, in each case the market as currently viewed will provide adequate support to create positive operating results after 3 years. This outlook is encouraging for a publicly funded facility. In addition, the added benefits in terms of job creation and new expenditures within the community further enhance the project's appeal.

Revenue Estimates

Underlying Assumptions

The revenue projections for the Hamilton Trade Centre/Arena have been estimated based on the analysis of revenue achieved by both competitive and comparable facilities and interviews with probable facility users. This data was then integrated with an evaluation of local market conditions and market share estimates were derived. The projections were then tested against comparable facilities to ensure reasonableness and adjusted as required. Further assumptions utilized in our projections include the following:

i) These projections represent a typical year of operation and are presented in 1982 dollars. In each scenario the projections are based on the assumption that the initial startup and awareness building period has taken place and therefore the facility is close to achieving the currently predictable level of market penetration.

ii) It has been assumed that the facility will be profit-oriented and management philosophy will reflect this objective. It is also assumed that management will be well-experienced and therefore competent with respect to Trade Centre/Arena operations and where applicable, concession operations as well.

iii) Revenue projections for arena rentals assume that the facility will adopt the accounting practice of measuring revenues net of recoverable costs per event.

iv) No assumptions have been made with respect to changes in liquor legislation allowing beer sales in arena facilities. However additional concession projections have been prepared to account for these revenues in order to demonstrate the effect of changes in existing law.

v) Assumptions have been made with respect to the probability of an event or attraction taking place and the resulting revenue impact. It has been assumed that revenue varies directly with the probability of an event taking place (ie. if probability of occurrence is 10%, then 10% of the event's total potential revenue has been taken into account).

vi) Varying levels of advertising revenue have been considered based on comparable situations, the impact of different scenarios, and potential agreements presented to the City.

vii) It has been assumed that management will have the ability and initiative to co-promote events and attractions at the facility and generate additional revenues.

Estimated Operating Costs

Underlying Assumptions

Our operating estimates for the Hamilton Trade Centre/Arena are primarily based on the operating experience of comparable and competitive facilities. In addition, assumptions peculiar to the Hamilton situation are based on directives

EXHIBIT VII

SUMMARY OF ESTIMATED OPERATING COSTS

(Net of Recoverables)

(1982 dollars)

	NHL/OHL Scenario	NHL Only Scenario	OHL Only Scenario	No Hockey Scenario
Payroll and Benefits	$959,500	$953,000	$897,150	$824,500
Administration Expense	190,000	190,000	190,000	190,000
Operations	833,000	833,000	756,000	690,000
Contingency (4%)	79,300	79,000	73,700	68,200
Total Expense	$2,061,800	$2,055,000	$1,916,850	$1,772,700

and recommendations from the Technical Committee with respect to guidelines and policies to be adopted for operation. Generally these assumptions pertain to all scenarios presented and are as follows:

i) Operating costs are representative of a typical year of operation and are presented in 1982 dollars. In each scenario, operating costs are based on the assumption that demand potential of the facility has been reached.

ii) It has been assumed that facility management will adopt a profit-oriented operating philosophy. This assumption is reflected in both the revenue and operating estimates.

iii) Certain adjustments have been made with respect to staffing and payroll to reflect operating conditions within the City of Hamilton's public sector. The major categories include salary levels and availability of City supplied manpower and services. The implication is a reduction in staffing and payroll expenses below that which would normally be incurred by an independent operation. We have also included employee benefits at 20% of payroll in our estimates of operating costs, again a reflection of current conditions in the Hamilton public sector.

iv) The utility costs (ie. heat, light, and power) have been initially prepared by H.H. Angus Engineers, retained in conjunction with Parkin Partnership, Architects for planning of the Hamilton Trade Centre/Arena. These preliminary estimates were calculated based on a computer model and the utility requirements of the NHL based scenario. The projections were then adjusted by Pannell Kerr Forster Campbell Sharp to represent the operating conditions evident in the remaining scenarios.

v) Insurance cost estimates have been prepared by the City of Hamilton Clerk's Office and represent the additional cost to the City of including the Trade Centre/Arena under an umbrella policy for Hamilton Place, the Convention Centre, Ivor Wynn Stadium and various other facilities owned and operated by the City.

EXHIBIT VIII

HAMILTON TRADE CENTRE/ARENA

Summary of Financial Results

(1982 dollars)

		Without Beer Sales	With Beer Sales
I)	NHL/OHL - with internal concessions		
	Total Revenues	$3,535,000	$3,724,000
	Total Operating Expenses	2,062,000	2,062,000
	NET OPERATING PROFIT	$1,473,000	$1,662,000
	NHL/OHL - with external concessions		
	Total Revenues	$3,298,000	$3,440,000
	Total Operating Expenses	2,062,000	2,062,000
	NET OPERATING PROFIT	$1,236,000	$1,378,000
II)	NHL ONLY - with internal concessions		
	Total Revenues	$3,535,000	$3,713,000
	Total Operating Expenses	2,055,000	2,055,000
	NET OPERATING PROFIT	$1,480,000	$1,658,000
	NHL ONLY - with external concessions		
	Total Revenues	$3,311,000	$3,445,000
	Total Operating Expenses	2,055,000	2,055,000
	NET OPERATING PROFIT	1,256,000	$1,390,000
III)	OHL ONLY - with internal concessions		
	Total Revenues	$2,052,000	$2,173,000
	Total Operating Expenses	1,917,000	1,917,000
	NET OPERATING PROFIT	$135,000	$256,000
	OHL ONLY - with external concessions		
	Total Revenues	$1,900,000	$1,991,000
	Total Operating Expenses	1,917,000	1,917,000
	NET OPERATING PROFIT	($17,000)	$74,000
IV)	NO HOCKEY - with internal concessions		
	Total Revenues	$1,854,000	$1,953,000
	Total Operating Expenses	1,773,000	1,773,000
	NET OPERATING PROFIT	$81,000	$180,000
	NO HOCKEY - with external concessions		
	Total Revenues	$1,730,000	$1,804,000
	Total Operating Expenses	1,773,000	1,773,000
	NET OPERATING PROFIT	($43,000)	$31,000

vi) All estimates of operating costs are net of recoverables (i.e. expenses recoverable from users). Only those operating costs which cannot be charged directly to the event or user have been considered.

vii) Unrecovered admission control costs have been assumed in our estimates to reflect those financial losses through unrecoverable salaries or portions of salaries relating to box office staff, security, ticket takers and ushers which cannot be directly charged to an event or user.

viii) A contingency factor has been included because the projections are estimates based on operating conditions at comparable facilities adapted to reflect the Hamilton market. While the projections have been carefully and conscientiously prepared, they do not represent budgets.

ix) Pre-opening expenses have not been included in our projections. It is assumed, however, that these costs will be incurred and are necessary to achieve the revenue estimates projected for the facility. It was beyond the mandate of this study to estimate or evaluate these costs but it is noted here for information purposes that the amortization of these expenses would have a direct impact on the operating results of the facility.

Based on the foregoing assumptions concerning revenues and expenses, Exhibit VIII on the facing page summarizes the expected financial operating results for the four scenarios examined. All amounts are stated in 1982 dollars and represent a typical operating year.